



Director of
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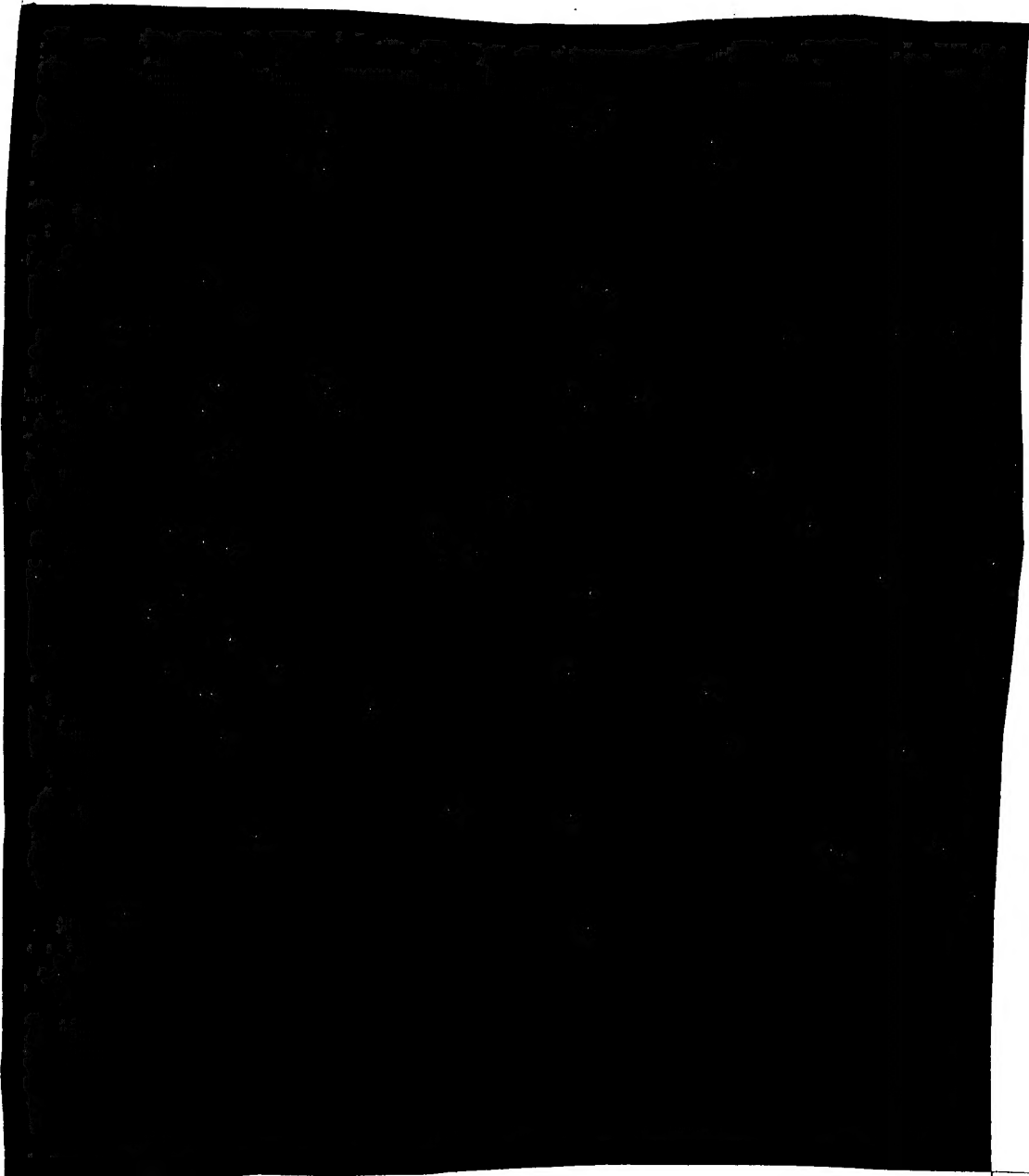
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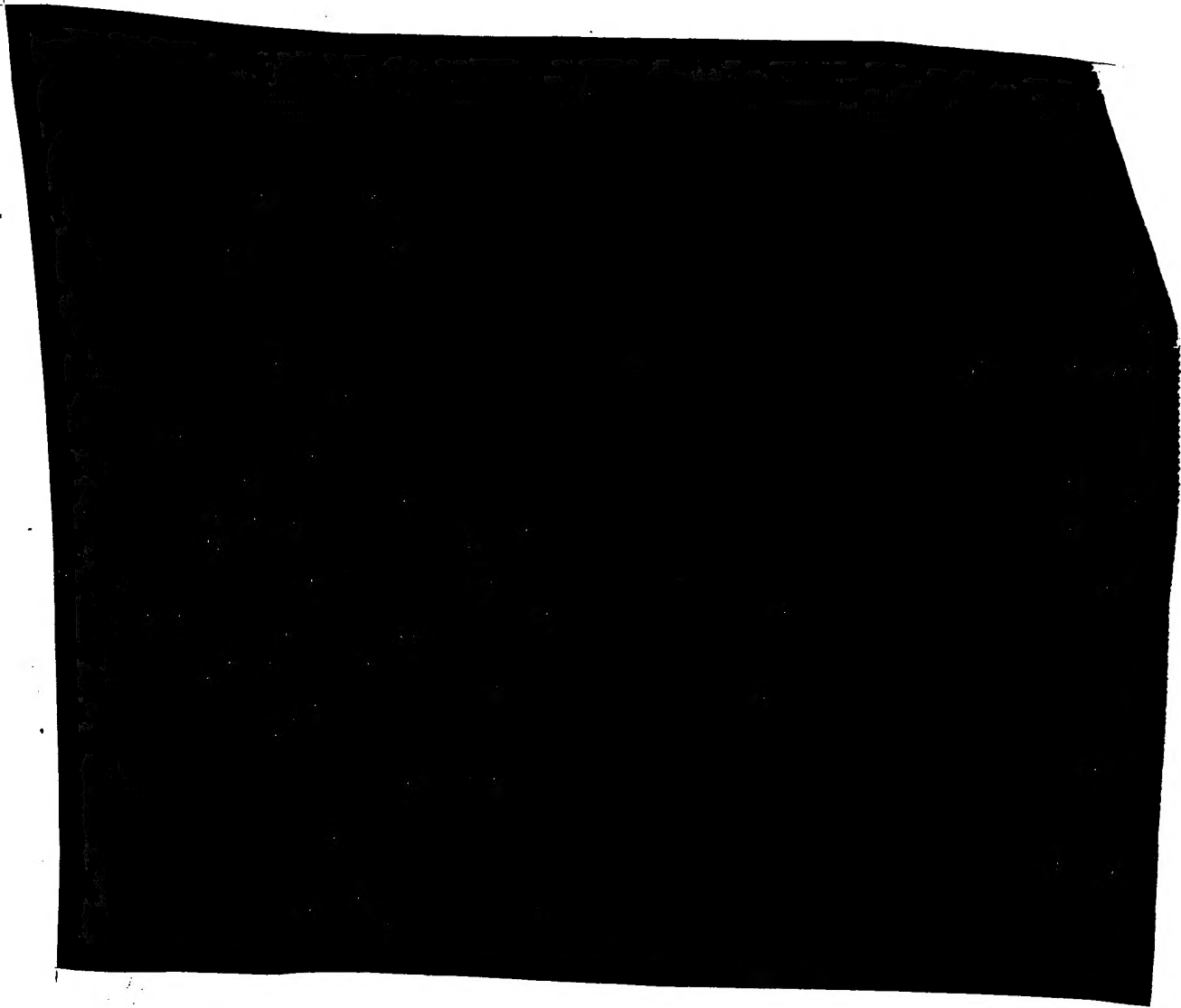
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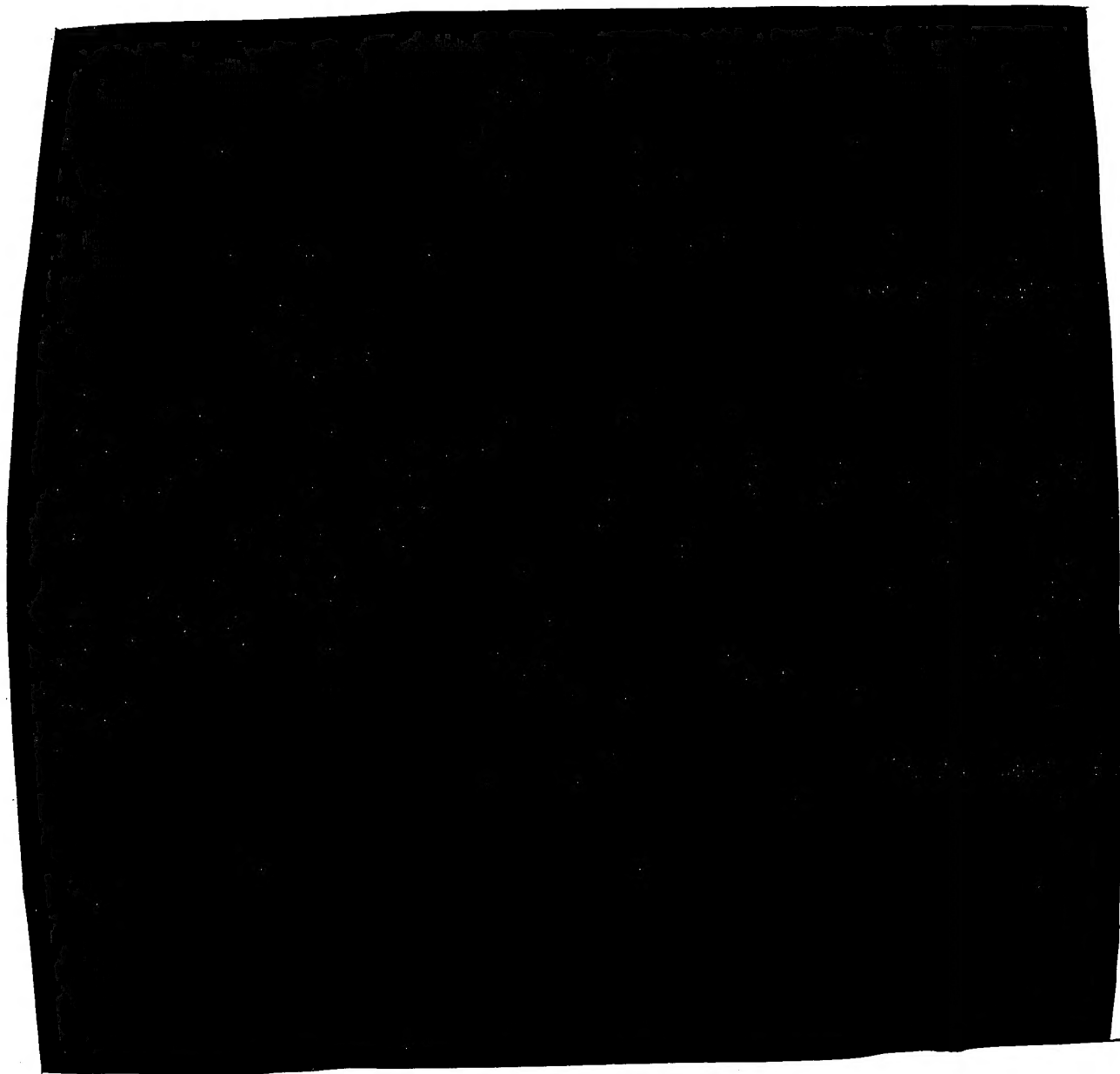
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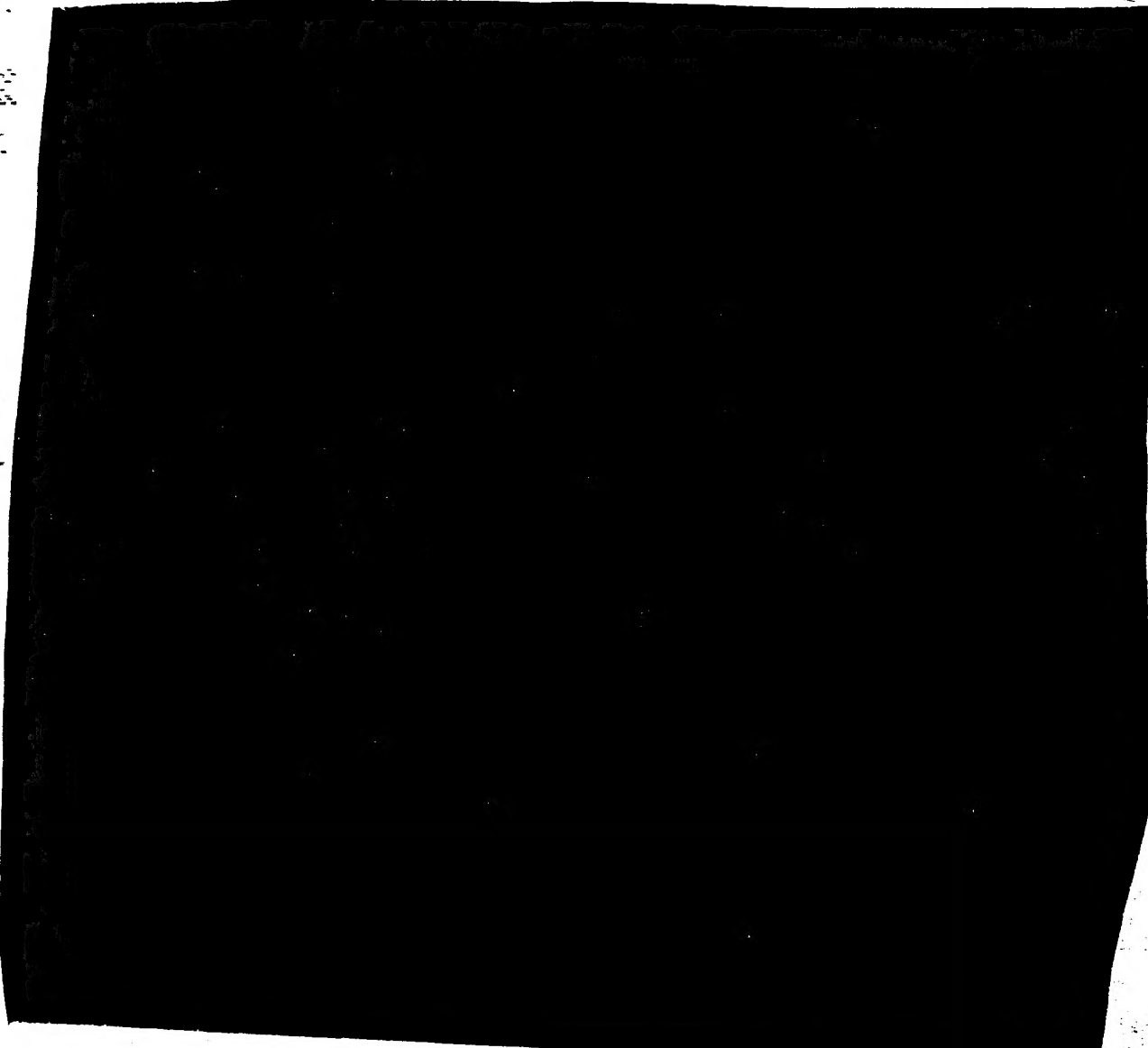
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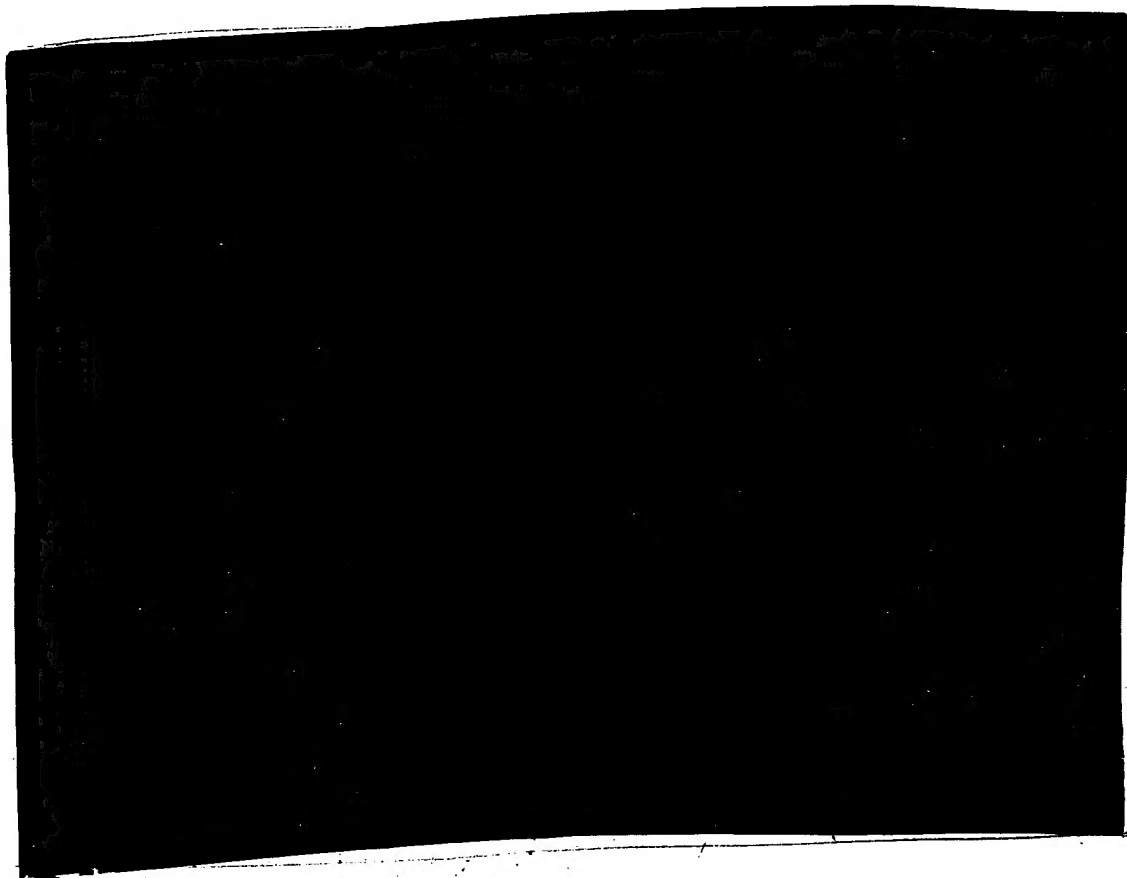
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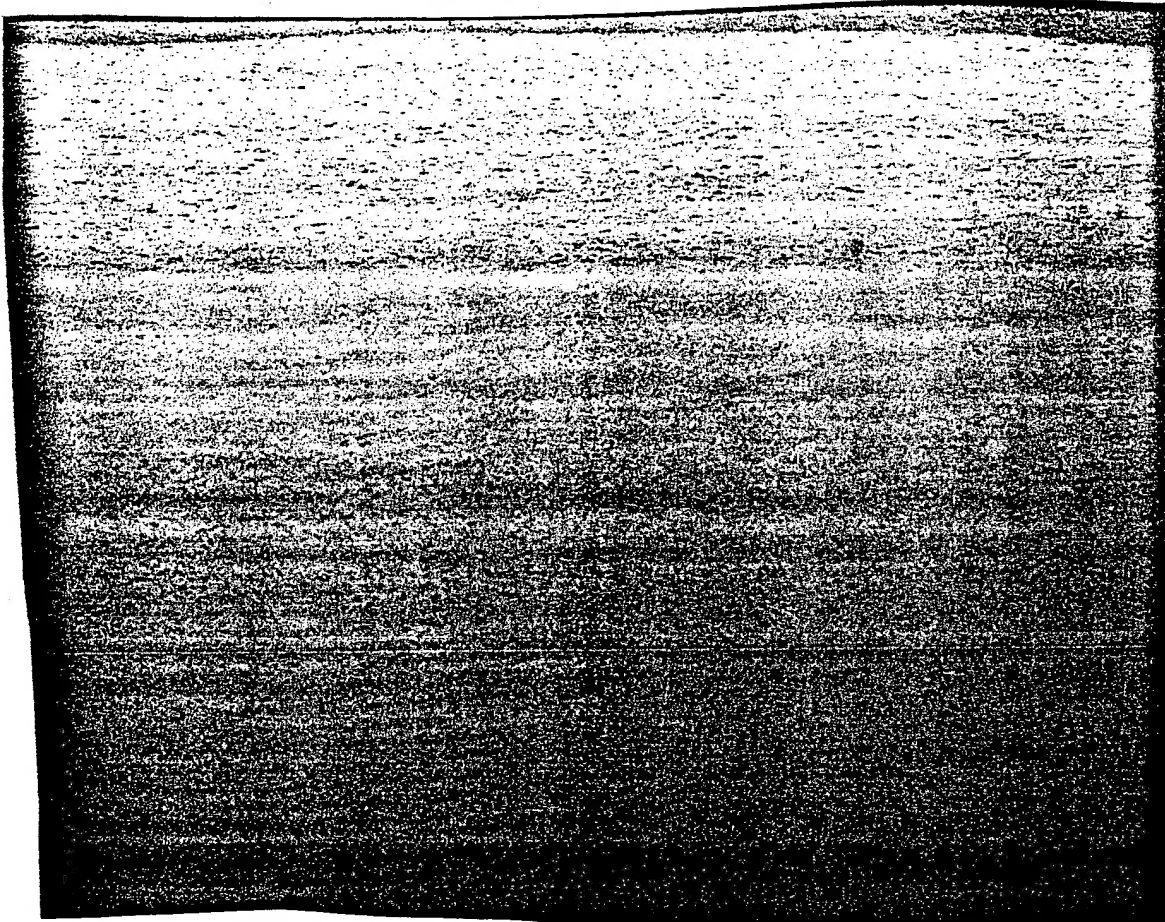
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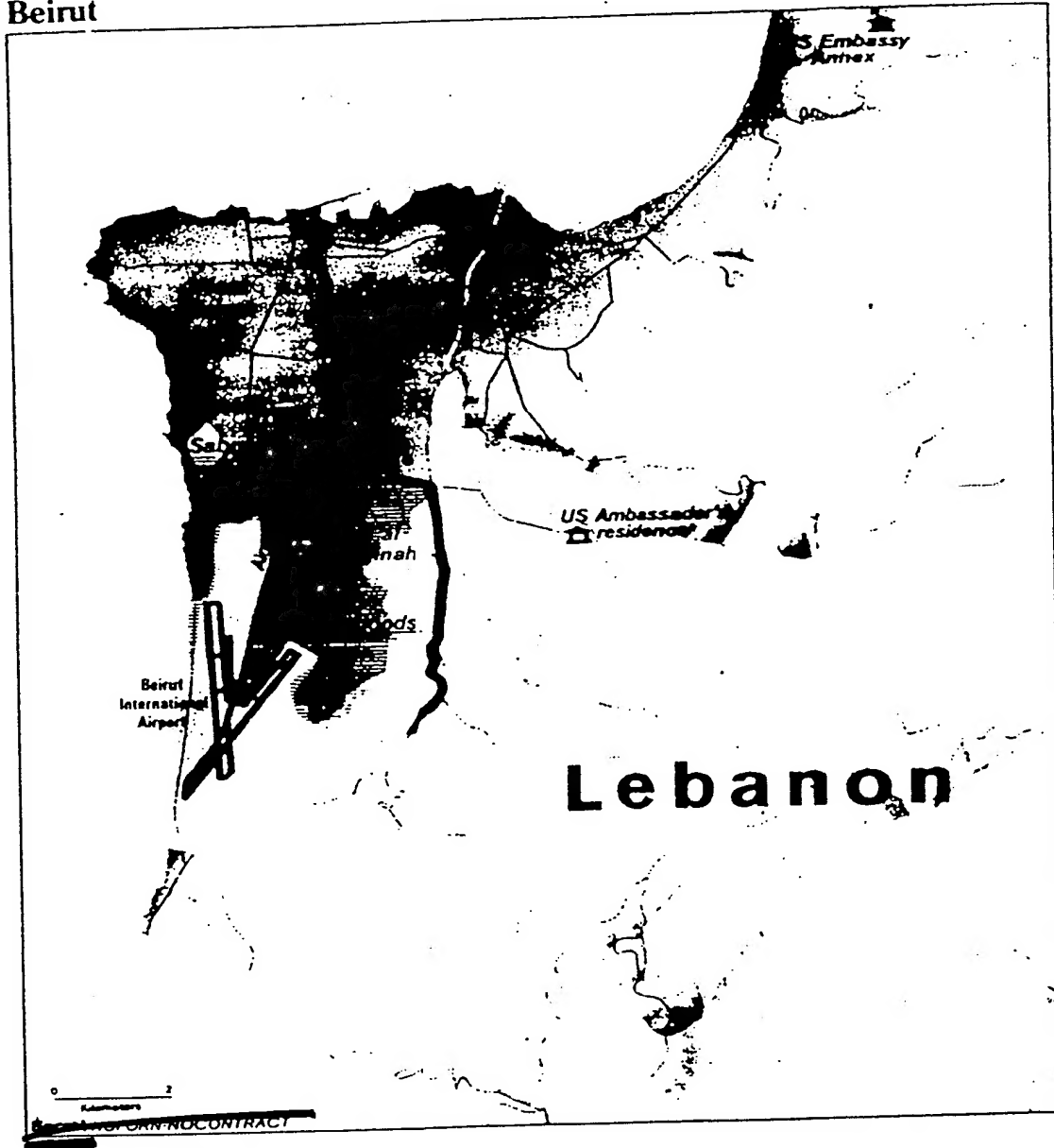
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LEBANON: Nabih Barri and Negotiations

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[REDACTED] Shia Amal chief Nabih Barri hopes that a successful resolution to the TWA hijacking, including the release of Shias held in Israel, will increase his influence and prestige in the Shia community and place the US in his debt.

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[REDACTED] Despite Barri's efforts to manipulate the hijacking to his advantage, he is unlikely to force the release of the hostages without a commitment by Israel to free the approximately 700 Shia detainees. Barri's influence with the hijackers is limited, especially since some of them are Hizballah sympathizers strongly opposed to Barri's more moderate policies. Shia radicals have made major inroads into Amal's organization in the southern suburbs of Beirut, and Barri's supporters must be very careful in opposing their more radical coreligionists openly. Barri's resources are further strained by Amal's four-week-old campaign against Palestinian fighters besieged in Beirut refugee camps.

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EGYPT-SUDAN: High-Level Meeting

Egyptian President Mubarak made an unexpected one-day trip to Khartoum yesterday to meet with Military Council Chairman Suwar al-Dahab for the first time since the coup in April. The delegation accompanying Mubarak included Egypt's Defense, Foreign Affairs, and Interior Ministers.

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[REDACTED] Mubarak's trip is part of a new Egyptian strategy to counter Libya's growing influence in Sudan. It almost certainly was prompted by the visit to Khartoum last weekend of Libyan Deputy Chief of Staff al-Humaydi, Qadhafi's personal envoy. Suwar al-Dahab may have encouraged the meeting with Mubarak to undermine domestic criticism that his regime is unable to contain Libyan inroads in Sudan.

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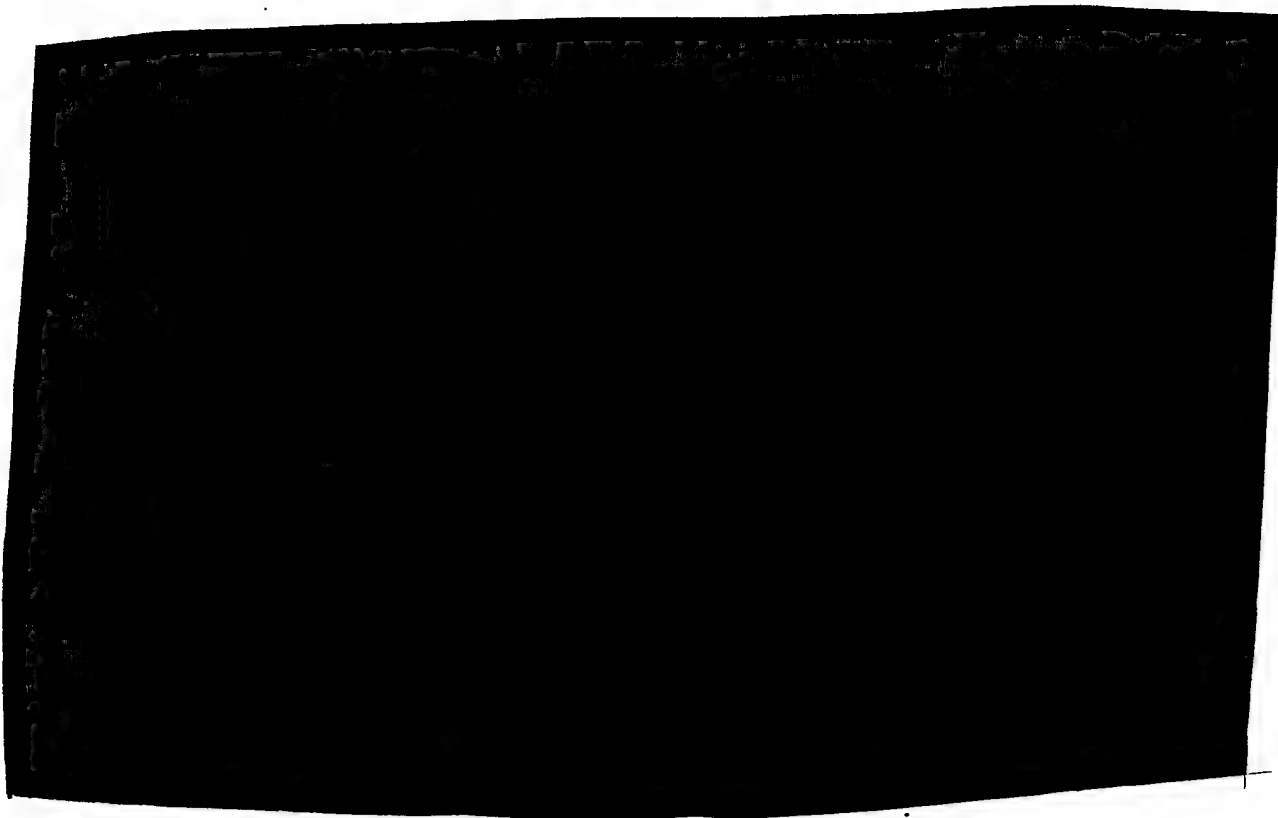
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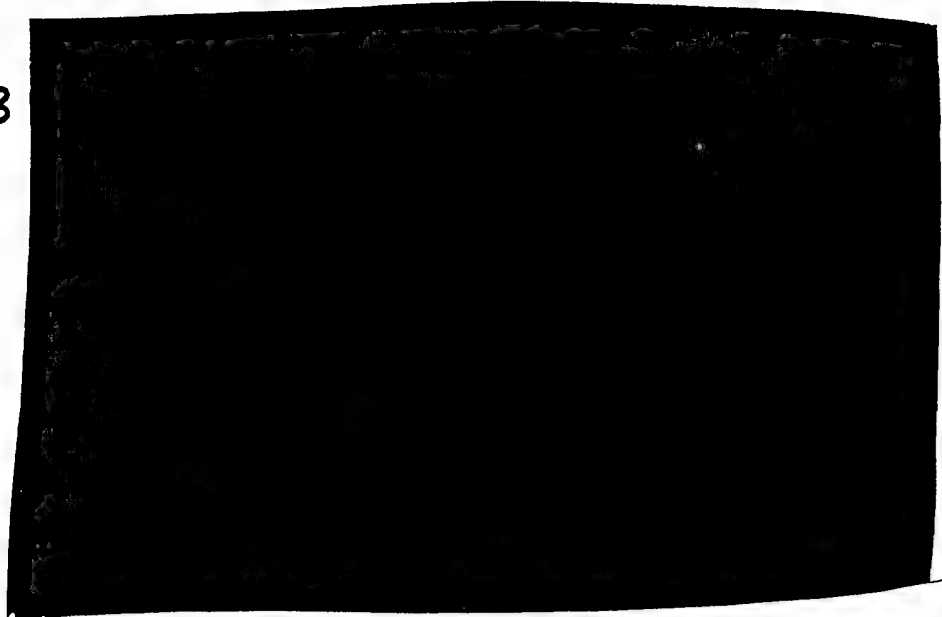
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CHINA: US-Chinese Relations Praised

Beijing's official English-language journal, *Beijing Review*, has praised "important steps" by President Reagan to improve US-Chinese relations, including his handling of obstacles posed by those in the US favoring Taiwan. The journal also highlighted the administration's efforts to "reverse" the US-Soviet military imbalance of four years ago. It repeated, however, Beijing's standard criticism of alleged US opposition to popular Third World policies. [REDACTED]

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[REDACTED] Beijing is trying to create a positive atmosphere for the visit of President Li Xiannian to the US next month. The language in the article is the warmest since President Reagan's visit to China last year. The favorable characterization of the administration's handling of Taiwan-related issues may be intended to offset comments last month by General Secretary Hu Yaobang on the possible use of force against Taiwan as well as the cancellation of a visit by US naval ships to China. Similarly, the comment on reversing the US-Soviet military imbalance seems designed to establish an implicitly anti-Soviet viewpoint on strategic issues despite improved Sino-Soviet relations. [REDACTED]

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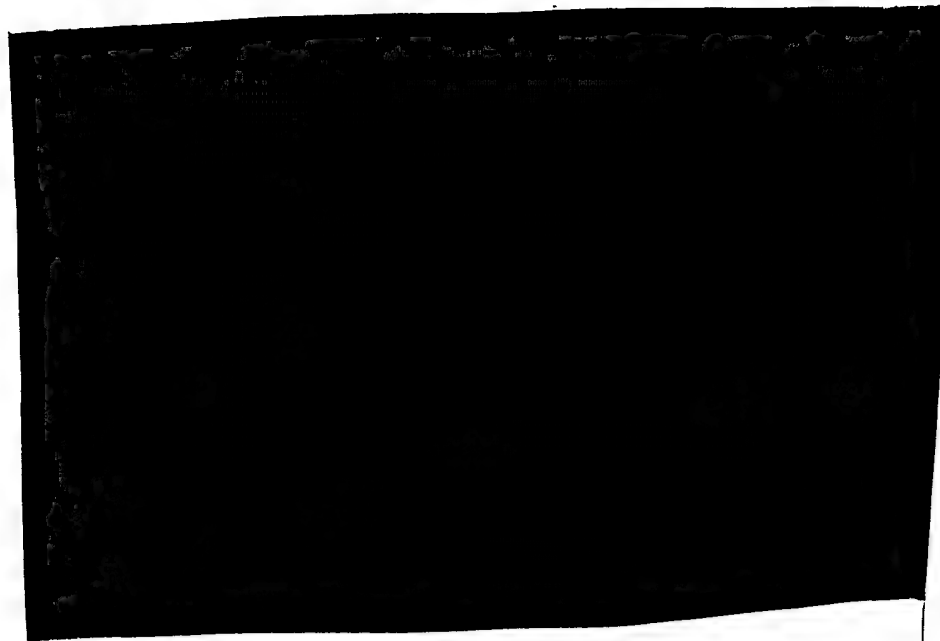
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CHINA: Provincial Shakeups Continue

In the largest reshuffle since early 1983, nearly half of China's 29 provincial-level party chiefs may be replaced by the end of June. Eight first secretaries have stepped down since April, and more changes are expected before the 30 June deadline for provincial reorganization set by General Secretary Hu Yaobang. Most of the new party secretaries are in their 50s, and several have college educations, conforming to Beijing's ideal of younger and better educated leaders. [REDACTED]

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[REDACTED] The leadership changes are a sign of reformist strength as Deng Xiaoping and his proteges prepare for the party delegate conference scheduled in September. Local resistance may be slowing the process, however. New party chiefs for Yunnan and Shanghai Provinces, publicly named last month by Hu Yaobang, have yet to be officially confirmed in their assignments. Some of the new party chiefs have been selected from relative obscurity, and they probably have stronger ties to Beijing's reform leadership than to the party committees in their provinces. [REDACTED]

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TURKEY: New Police Powers Bill

A controversial new bill that gives sweeping powers to the police is likely to put more strain on Turkey's relations with Western Europe. Prime Minister Ozal claims the bill is necessary to allow the government to maintain law and order when national martial law is completely lifted, but the opposition, including some members of Ozal's own Motherland Party, say it will create a police state. Socialists in Western Europe have bitterly criticized the bill, and EC officials have warned that it will cause further deterioration in Turkish-EC relations. Ozal has reacted strongly, accusing the EC of interfering in Turkey's internal affairs. [REDACTED]

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[REDACTED] The bill may be the Ozal government's most controversial piece of legislation. The law defines broad new areas of responsibility for the police, such as regulating moral behavior and controlling clubs and organizations, and permits police to hold suspects for up to 15 days for crimes involving antistate activities, conspiracy, drugs, or smuggling. The strong protests from Western Europe and Ankara's harsh response almost certainly will further damage relations already strained by human rights issues, frozen EC aid, and EC quotas on Turkish textiles. [REDACTED]

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NEW ZEALAND: Byelection Loss

The strong swing away from the Labor Party in last Saturday's byelection will be particularly embarrassing for Prime Minister Lange's government. Lange had involved his entire Cabinet in the campaign. Labor's share of the vote dropped to 36 percent—as compared with 48 percent in the national election last year. The opposition National Party won 43 percent and the rightwing New Zealand Party won 14 percent in the largest voter turnout ever in a New Zealand byelection. [REDACTED]

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63 [REDACTED] Although many local observers see the vote as a rejection of Labor's leftwing candidate, party insiders will blame Finance Minister Douglas's austere economic policies. They will cite the large turnout as a repudiation of Lange's economic reform program and will increase pressure in the party caucus to return to traditional welfare-state policies. The announcement on Saturday that the government would postpone introducing its new sales tax—a last-ditch effort to save the byelection—indicates that Lange's moderate faction is already shaken. The previously sagging political fortunes of opposition leader McLay, meanwhile, will be boosted by the victory. At the same time, the balloting shows that the neutralist New Zealand Party and its charismatic leader Bob Jones continue to win New Zealand's young conservatives. [REDACTED]

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CHILE: State of Siege Lifted

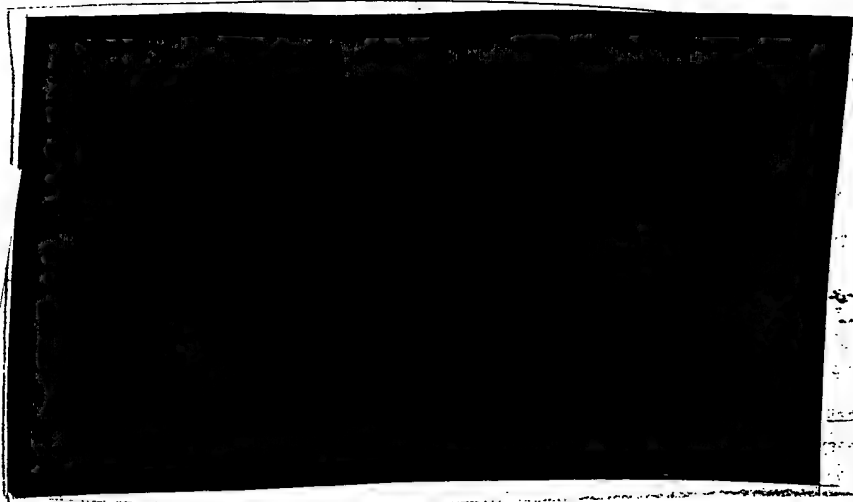
b3 The lifting of the seven-month-old state of siege in favor of a less severe state of emergency probably will lead to an increase in opposition protests. Interior Minister Garcia claimed a drop in terrorist violence justified the action and said the government intends to restore freedom of information. He noted that some press censorship and limits on public meetings and political party activities will continue. [REDACTED] the media will still be prohibited from reporting such events as terrorist acts and antiregime protests, that the nightly curfew will be retained, and that the government can continue to relegate opponents to internal exile. [REDACTED]

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Comment: Moderate opposition parties probably will try to capitalize on the more open climate by promoting large-scale protests, and some moderates—including the Christian Democrats—may be more willing to collaborate with the Communist Party. Terrorism, which continued unabated under the state of siege, may now become more lethal as the radical left attempts to provoke an overreaction by the regime. [REDACTED]

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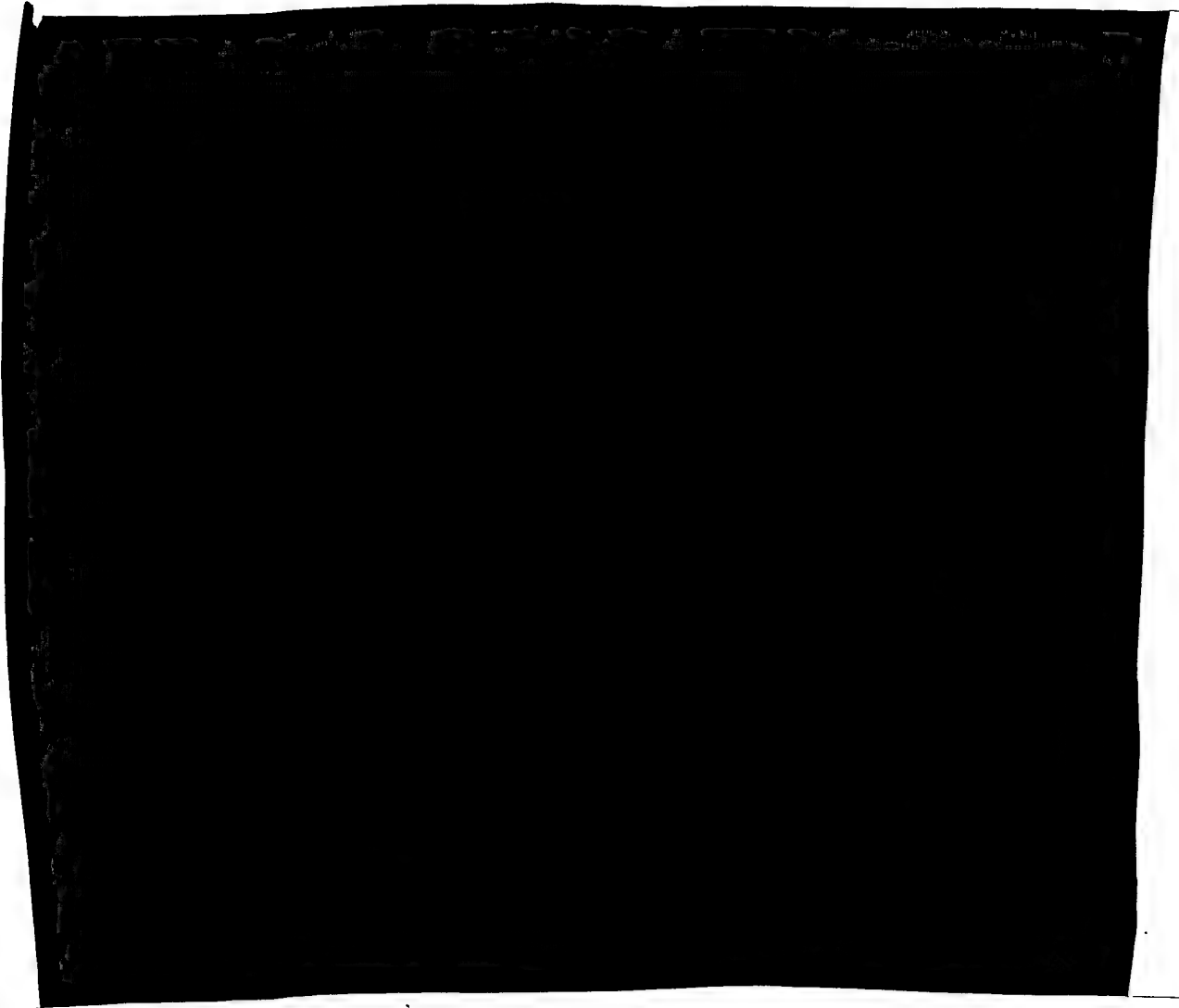
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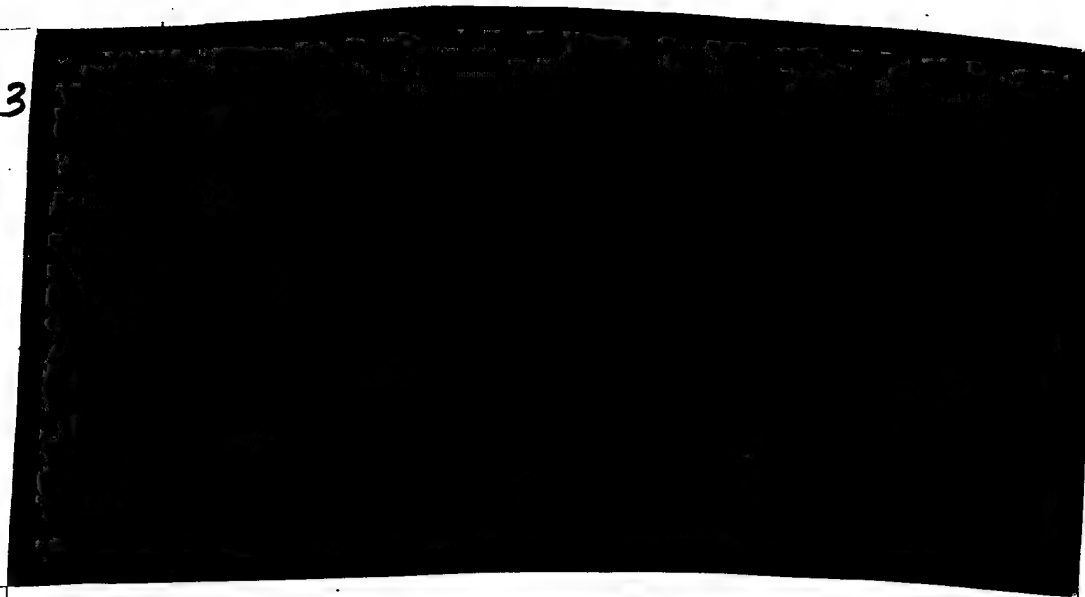
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In Brief

Americas

- Domestic reactions mixed thus far to **Argentina's** tough economic plan ... opposition Peronists and their labor allies strongly critical ... business leaders cautiously supportive ... most Argentines adopting wait-and-see attitude. [REDACTED]

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b1 [REDACTED]

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[REDACTED]

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- Recent study indicates cocaine and marijuana abuse in **Brazil** increasing rapidly. [REDACTED] ... use spreading to lower classes, probably reflecting greater supply, lower cost ... publicity likely to aid US efforts to focus attention on drug issue. [REDACTED]

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- [REDACTED] **Peruvian** traffickers operating under political front ... inciting villagers against narcotics police, forcing withdrawal in some cases ... scattered violence is setback to eradication efforts. [REDACTED]

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Middle East

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- **Jordanian** Prime Minister Rifai [REDACTED] planning minor Cabinet changes to consolidate his control over policy ... likely to shift Foreign Minister and remove Finance and Information Ministers. [REDACTED]

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- **Tunisia** has raised fuel and sugar prices as much as 24 percent to trim budget deficit ... will link future hikes to wage levels ... measures fail to satisfy demands for real wage increases, risk unrest ... unions and poor rioted over food prices last year. [REDACTED]

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USSR

- **Soviet** industrial performance through May showed continued improvement from winter slump ... up almost 2.5 percent over same period last year ... but oil production remained flat despite management overhaul, extra workers. [REDACTED]

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Eastern Europe

— Czechoslovak Central Committee session begins today ... party leader Husak may suggest adjustments to domestic, economic policies ... Gorbachev's calls for Soviet economic changes reportedly made some Czechoslovak hardliners nervous. [REDACTED]

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— Hungarians [REDACTED] dropping plan to buy Polish debt paper at large discount due to Soviet pressure ... wanted payment from Poland in high-quality goods ... Moscow apparently objecting because arrangement outside regular CEMA trade structure. [REDACTED]

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Africa

— Zairian dissidents based in Tanzania again attacked Moba in eastern Shaba region yesterday ... [REDACTED] government troops [REDACTED] still control key facilities ... Libya almost certainly supported rebels. [REDACTED]

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International

[REDACTED]

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South Asia

— Sri Lankan insurgents blew up section of railway connecting Colombo with northern city of Jaffna Saturday ... possible retaliation for security forces' killing of 15 Tamil insurgents Friday ... may hinder progress toward new negotiations. [REDACTED]

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Pacific

[REDACTED]

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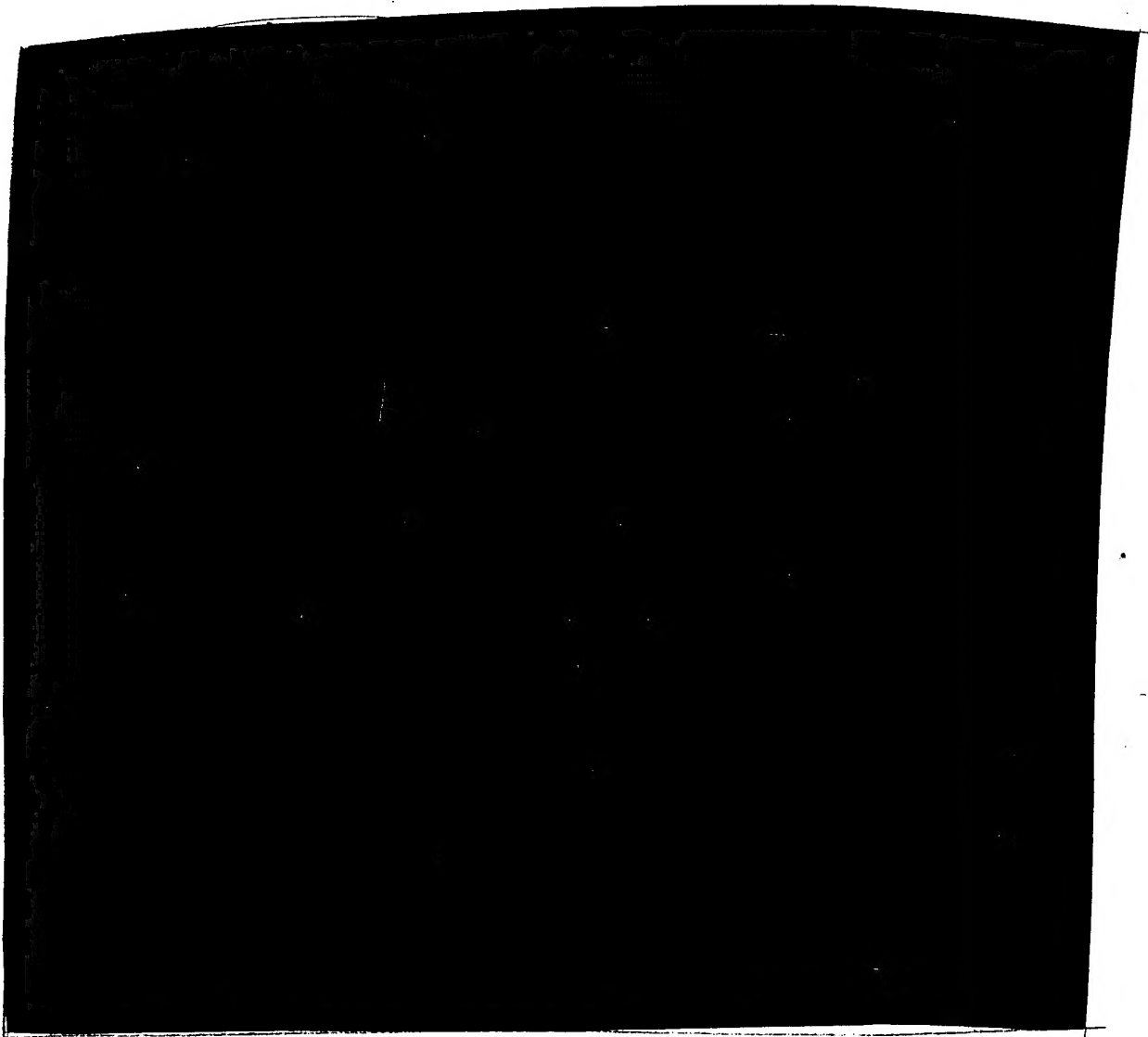
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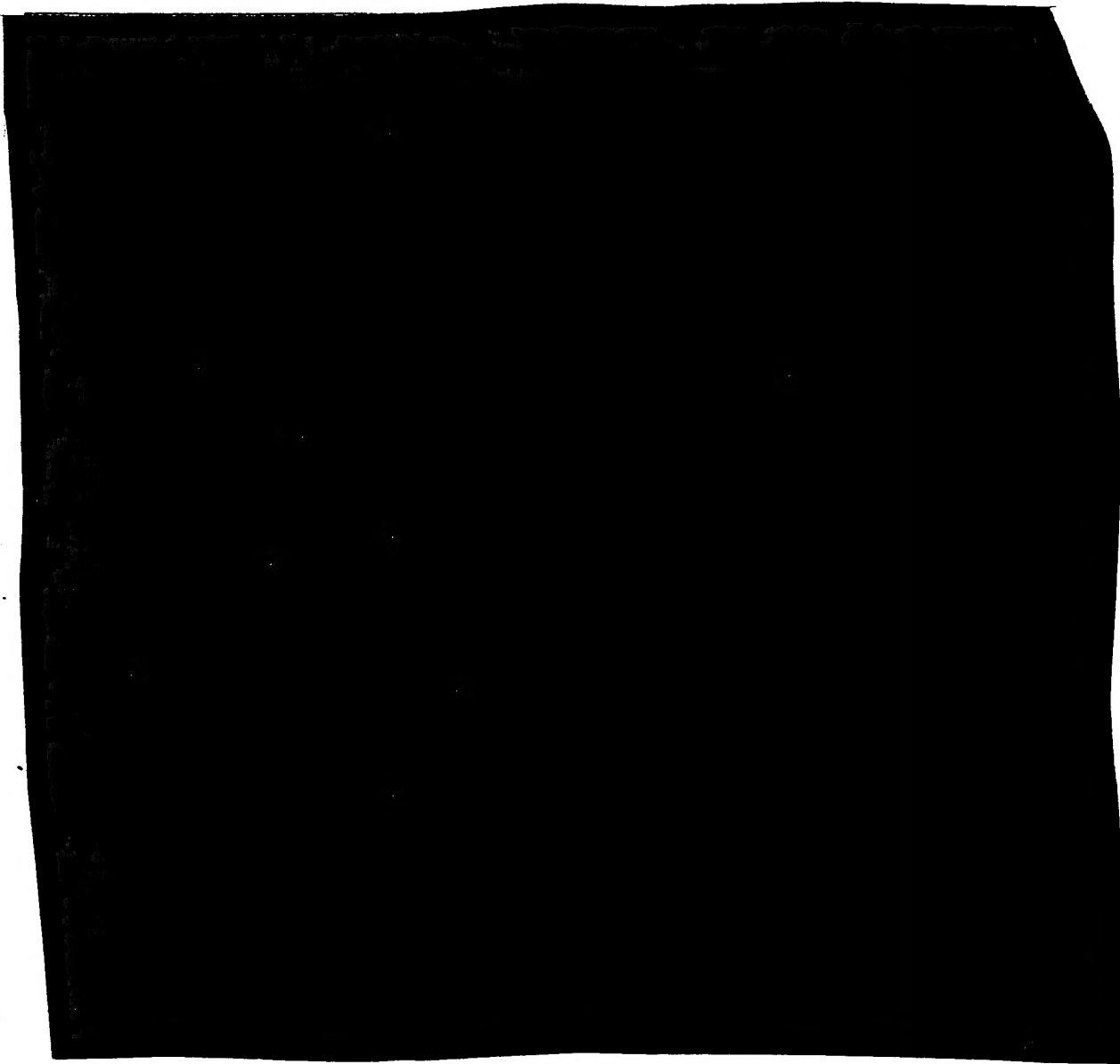
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Special Analysis

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Special Analysis

BRAZIL:

Sarney's Economic Task

President Sarney's attempt to strengthen his small political base within the two-party alliance created by the late President-elect Neves is having a big impact on determining economic policies. In particular, Sarney's vulnerability to pressures from left-of-center elements in Neves's party may portend problems for the civilian government's nascent economic stabilization effort.

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Sarney came to power three months ago at a time of crucial setbacks to economic stabilization. In February the IMF suspended its support because Brazil missed targets for controlling monetary growth and trimming the public deficit. Foreign banks, in turn, postponed negotiations on a multiyear debt rescheduling.

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In addition, Brazil's exports weakened and inflation accelerated in the first quarter of 1985. Although economic performance improved in April and May, many Brazilians are skeptical it will be sustained.

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Political Constraints

Neves's Brazilian Democratic Movement Party—the dominant force in the ruling alliance—does not trust Sarney because of his previous affiliation with military-backed parties. Accordingly, he has felt obliged to give the party, including its many left-of-center members, a voice in economic policy.

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Sarney has increased the influence of Planning Minister Sayad, a favorite of the party's left, to rival that of the more orthodox Finance Minister Dornelles, Neves's intended economic czar. He also has indicated he will seek approval for major decisions from Brazil's Congress, where the Democratic Movement is the largest party.

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Cautious Approach

The administration to date has made few major economic policy pronouncements and has not shown a clear commitment to stabilization. In March Dornelles announced several tough austerity measures, but Neves's illness impeded implementation. In the following months the administration approved a \$2.6 billion social program proposed by Sayad and doubled the minimum wage, complicating efforts to restrain the budget and dampen inflation.

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